Post Budget Seminar 2024-25
Karachi Tax Bar Association

Direct tax considerations

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Karachi Tax Bar Association

Building a better working world

Minimum Tax Regime for Exporters – Section 154

- Almost all persons engaged in any sort of business in Pakistan are subject to minimum taxes under the Ordinance with only exception being exporters (goods and services both)
- No one has every questioned this since they are considered as a sacred cow which is a major contributor to our ever-decreasing foreign currency reserves
- The proposed legislation now seeks to bring the exporters as well under the minimum tax regime. As a result, income derived from exports would be subject to Normal Tax Regime (NTR). Alongside, an additional advance tax collection @ 1% has also been proposed.
- From the language of proposed amendment, if appears that tax deducted @ 1% (other than additional advance tax collection of 1%) would be considered a minimum tax liability.
- However, in case the liability of exporter falls under NTR, he would be able to adjust the same against their ultimate tax liability. Conversely, if an exporter incurs a loss, he may claim such additional advance tax collection as a refund

Rate of Tax

Non-Salaried Individuals & AOP

- Rates of tax for non-salaried individuals and AOPs, and corresponding income slabs have been increased substantially to as high as 45% on the income exceeding PKR 5.6 million
- The rationale seems to be to equate an individual and AOP rate with the corporate tax rate which is looked at as basic rate + rate of tax on dividend (29+15)
- This may well be true for an AOP who has investor partners like shareholders. However, for professional AOPs this equation does not work
- For taxpayers deriving income more than PKR 500 million, total tax incidence will be effectively 55% (including super tax @ 10%)

Salaried Individuals

- A salaried taxpayer is an individual whose income chargeable under the head “salary” exceeds 75% of his taxable income for the year.
- The Bill has proposed to change the income slabs for salaried individuals by reducing the tax base.
- However, the highest slab rate remained unchanged at 35% on income exceeding PKR 4.1 million as against the existing threshold of PKR 6 million
- This will result in increase in the tax burden on salaried individuals

Impact of Increase in Tax Rates – Non-Salaried

Taxable income		Tax Year 2024 (Current) PKR	Tax Year 2025 (Proposed) PKR	Increase in tax incidence PKR	Percentage increase in tax incidence
Income per month PKR	Annual income PKR				
50,000	600,000	-	-	-	-
66,667	800,001	15,000	30,000	15,000	**100**
100,000	1,200,001	75,000	90,000	15,000	**20**
200,000	2,400,001	315,000	410,000	95,000	**30.16**
250,000	3,000,001	465,000	590,000	125,000	**26.88**
333,333	4,000,001	765,000	970,000	205,000	**26.8**
466,667	5,600,001	1,325,000	1,610,000	285,000	**21.51**
1,250,000	15,000,000	4,615,000	5,840,000	1,225,000	**26.54**
1,666,667	20,000,000	6,365,000	8,090,000	1,725,000	**27.1**
2,083,333	25,000,000	8,115,000	10,340,000	2,225,000	**27.42**
4,166,667	50,000,000	16,865,000	21,590,000	4,725,000	**28.02**
8,333,333	100,000,000	34,365,000	44,090,000	9,725,000	**28.30**
12,500,000	150,000,000	51,865,000	66,590,000	14,725,000	**28.39**
16,666,667	200,000,000	69,365,000	89,090,000	19,725,000	**28.44**
33,333,333	400,000,000	139,365,000	179,090,000	39,725,000	**28.5**
41,666,667	500,000,000	174,365,000	224,090,000	49,725,000	**28.52**

Impact of Increase in Tax Rates – Salaried

Taxable income		Tax incidence		Increase in tax incidence PKR	Percentage Increase in Tax Incidence
Monthly Salary PKR	Annual Salary PKR	Tax Year 2024 PKR	Tax Year 2025 PKR		
50,000	600,000	-	-	-	-
75,000	900,000	7,500	15,000	7,500	**100.00**
100,000	1,200,001	15,000	30,000	15,000	**100.00**
125,000	1,500,000	52,500	75,000	22,500	**42.86**
150,000	1,800,000	90,000	120,000	30,000	**33.33**
183,333	2,200,001	140,000	180,000	40,000	**28.57**
200,000	2,400,001	165,000	230,000	65,000	**39.39**
250,000	3,000,000	300,000	380,000	80,000	**26.67**
266,667	3,200,001	345,000	430,000	85,000	**24.64**
300,000	3,600,001	435,000	550,000	115,000	**26.44**
341,667	4,100,001	572,500	700,000	127,500	**22.27**
350,000	4,200,000	600,000	735,000	135,000	**22.50**
500,000	6,000,001	1,095,000	1,365,000	270,000	**24.66**
700,000	8,400,000	1,935,000	2,205,000	270,000	**13.95**
750,000	9,000,000	2,145,000	2,415,000	270,000	**12.59**
850,000	10,200,000	2,565,000	2,835,000	270,000	**10.53**
1,000,000	12,000,000	3,195,000	3,465,000	270,000	**8.45**
1,250,000	15,000,000	4,245,000	4,515,000	270,000	**6.36**

Exemption Certificate – Section 152, 153, and 159

- Non-residents having a permanent establishment in Pakistan and resident persons were eligible to obtain an exemption certificate for non-withholding of tax where, tax deduction at source is adjustable in nature.
- The taxpayer discharged their estimated tax liability by way of paying advance tax.
- Among other reasons, the most important rational for obtaining the exemption certificate are as follows –
  - To avoid over withholding of tax i.e., over and above tax liability and resultant accumulation of refunds; and
  - To avoid laborious task of gathering evidence in relation to such tax deduction at source
- The Bill has proposed to abolish this concept of issuance of ***'exemption certificate'*** and have restricted it to ***'reduced rate withholding certificate'***.
- The rational which is being given by the Board for such change is to document sale transaction by way of withholding of tax
- However, now there remains ambiguity as to how a reduced rate would be determined by the Commissioner
- Another important aspect which needs to be kept in mind is that while section 159 is also amended for only issuance of reduced rate certificate, how an entity which is exempt from tax or is eligible for 100% tax credit would avoid withholding of tax ?

Exemption Certificates – Section 152, 153, and 159

- Specially in Sindh, the High Court has held that even for exemption available under the Second Schedule, non-withholding certificate is required to be obtained from the Commissioner
- Consequently, it appears that such entities would also suffer withholding of tax on their receipts which would result in accumulation of refund for them and having an adverse cash flow impact
- What does reduced rate mean?

Power to Challenge Estimate of Advance Tax – Section 147

- If a taxpayer fails to disclose his turnover, or if the turnover for the quarter is unknown, the quarterly advance tax should be calculated as 120% of the turnover from the latest tax year for which the taxpayer has filed a return

- Commissioner is proposed to have the authority to reject a taxpayer's estimate of advance tax if the supporting documentary evidence is deemed unsatisfactory or if the estimate does not include necessary details as required by law.

- In such cases, the taxpayer will be required to pay advance tax based on the tax-to-turnover ratio for the latest assessed tax year.

- This a very harsh provision which is likely to be abused by tax authorities keeping in view the enormous revenue generating pressure.

Advance Tax Collection – Section 236G and 236H

- Section 236G and 236H requires collection of advance tax by a manufacturer / commercial importer/ distributor on sale to distributors, dealers, wholesalers, and retailers of specified industries and products.
- The Bill proposes to expand its scope to all sectors unlike specific listed sectors and simultaneously increased rate of collection of advance tax from non-filers as follows –

Person	Existing		Proposed	
	Filer	Non-filer	Filer	Non-filer
Sale to distributors, dealers, wholesalers	0.1%	0.2%	0.1%	2%
Sale to retailers	0.5%	1%	0.5%	2.5%

- This appears to be a documentation measure. Through this means, the Board could easily compute the number of purchases made by distributors, dealers, wholesalers, and retailers
- While this amendment may not have any material impact from income tax point of view, however, retailers could have significant impact of the above change
- The Sales Tax Act, 1990 provides that if a retailer suffers collection of advance tax exceeding Rs.50,000 in immediately preceding consecutive twelve months, he would be designated as a Tier-1 retailer

Transaction with Associates

- In relation to transactions between associates, the Commissioner is empowered to distribute, apportion, or allocate income, expenditures, or tax credits between associates
- The Bill has proposed that claim of expenditure in respect of sales promotion, advertisement, and publicity (SAP) would be restricted to 75% of total expenditure for all cases in which if a royalty is paid or payable, directly or indirectly to an associate, for the tax year or for any of the two preceding tax years
- Consequently, the remaining 25% of SAP expense will be disallowed and allocated to the associate
- The term **“royalty”** is attributable to consideration on account of use of, or the right to use brand name, logo, patent, invention, design or model, secret formula or process, copyright, trademark, scientific or technical knowledge, franchise, license, intellectual property, or other like property or right or contractual right
- Pakistan source royalty of a non-resident person is taxable under FTR. Therefore, SAP expense allocated to the non-resident associate would never be allowed as an expense
- The above proposed amendment is to have retrospective effect for the tax year 2024 as well

Powers of the Board / Commissioner

Additional Measure to Enforce Filing of Return of Income

- Through the Finance Act, 2022; an amendment was introduced to broaden the tax base, whereby the Board was empowered to impose restriction for use of certain amenities on persons who fail to file the return of income.
- The Bill seeks to further empower the Board to put restrictions on foreign travel of such person. This restriction, however, will not apply on the following person –
  - Minors
  - Students
  - Person who is either holder of a National Identity Card for Overseas Pakistanis (NICOP)
  - Covered under the class or classes of persons specifically notified by the Board in this regard

Powers of the Board / Commissioner

Power of Board to Fix Minimum Value for Imports

- At present income tax at import stage is collected based on evaluation of goods done by Customs. It is now proposed to empower Board to determine minimum value for the purpose of collection of tax under section 148
- Does this mean that within FBR their will be different valuations for levying customs duty and income tax?

Details of Foreign Assets in Wealth Statement

- At present, the Commissioner is empowered to require an individual to submit his wealth statement duly disclosing details of assets either held in his own name or in the name of person’s spouse, minor children, and other dependents.
- The proposed amendment has now allowed the Commissioner to ask for the disclosure of foreign assets alongside domestic assets in the wealth statement.
- Although a separate statement (116A) is available for declaration of foreign income and assets, however, such requirement is only applicable on person having foreign income (more than 10K USD) and assets of (100K USD)
- After the above amendment, the Commissioner can now ask every person having foreign income and asset (below above thresholds) to declare the same

EY

Other Various Amendments

Full Time Teacher & Researcher

- Tax credit available to full time teacher & researcher (working in specified organizations duly approved by HEC) equal to 25% of tax liability on his salary income has been withdrawn

Government Grant / Subsidy

- Exemption available on receipt of grant from the Federal Government has been withdrawn

Exemptions in relation to Erstwhile FATA / PATA

- Exemption from levy of income tax and non-applicability of provision related to collection/deduction of advance tax on individuals/companies and AOP which are resident of such areas has been extended till 30 June 2025

Increase in Rate of Default Surcharge

- The interbank rate has surged quite substantially over past few years, however, the rate of default surcharge on late payment was fixed at 12%. This time around, the rate of default surcharge has been changed to align with current market rates and is proposed as KIBOR + 3%
- Various taxpayers opted to make late payment of tax owning to this lacuna and earn spread over market rate and 12%

Thank you